

# ASSEMBLY BUDGET COMMITTEE

## STATEMENT TO

### ASSEMBLY, No. 3485

# STATE OF NEW JERSEY

DATED: JUNE 24, 2014

The Assembly Budget Committee reports favorably Assembly Bill No. 3485.

This bill raises the gross income tax rate on taxable income exceeding \$1,000,000 to 10.75 percent for a temporary three-year-period and restores the State earned income tax credit to 25 percent of the federal credit. The purpose of this bill is to raise revenue from high-income generating activities while maintaining supplemental income assistance for the working poor.

The bill raises the gross income tax rate on annual income exceeding \$1,000,000 to 10.75% for taxable years 2014, 2015, and 2016.

The bill also increases the State earned income tax credit from 20 percent to 25 percent of the federal earned income tax credit for taxable years 2014 and thereafter.

#### FISCAL IMPACT:

#### GROSS INCOME TAX RATE INCREASE

The Office of Legislative Services (OLS) notes that precise figures are not available for the revenue gain to be realized from the temporary three-year gross income tax rate increase. The most recently published New Jersey gross income tax (GIT) statistics are for Tax Year 2011. Extrapolating those figures for high income tax payers by assuming annual growth of between 4% and 6% yields an estimated range of GIT revenue increases between \$550 million and \$580 million in Tax Year 2014, the first year under this bill. These annual ranges would grow to an estimated \$572 million - \$603 million in TY 2015 and \$595 million - \$627 million in TY 2016, the third and final year under the bill.

However, the fiscal year revenue distributions will differ from the tax year amounts. There will be no receipts in FY 2014, which will be complete before implementation can begin. In FY 2015 the OLS estimates an approximately 15% bonus due to the retroactive implementation of the bill, in which the tax rates are effective beginning January 1, 2014. FY 2015 will collect 100% of the TY 2014 tax liability plus an estimated 15% of the TY 2015 liability from the first six months of withholding and two quarterly estimated

payments in 2015. The OLS estimates this one-time bonus to equal between \$86 million - 90 million in FY 2015. Accordingly, the total collection in FY 2015 is estimated between \$636 million - \$670 million (100% of revenues from TY 2014 plus 15% of TY 2015). FY 2016 is estimated to raise between \$575 million - \$607 million (85% of TY 2015 plus 15% of TY 2016). FY 2017, the final year of receipts, is estimated to raise between \$506 million - \$533 million (85% of TY 2016).

The OLS notes that the revenue gain under this bill will be highly volatile and subject to significant annual change. High-income taxpayers are far more dependent on volatile income sources such as capital gains, bonuses, and certain types of business income than other taxpayers. For example, GIT revenue from taxpayers with more than \$1.0 million income rose by 25% in TY 2007, the year before the Great Recession, but fell 25% in TY 2008 at the onset of the Great Recession.

#### EARNED INCOME TAX CREDIT

The Office of Legislative Services (OLS) additionally estimates the cost of increasing the State Earned Income Tax Credit (EITC) from 20 percent of the federal credit amount to 25 percent at \$54.7 million in FY 2015 (TY 2014), \$56.1 million in FY 2016 (TY 2015) and \$57.5 million in FY 2017 (TY 2016).

The OLS estimate is based on the latest data available from both the Internal Revenue Service (IRS) and the New Jersey Division of Taxation ("division"). According to IRS and division data, of the 599,195 NJ taxpayers claiming a federal EITC in TY 2011, 528,003 taxpayers also filed for a State credit amount. However, of those taxpayers filing for the State benefit, only 466,235 claims (or 80.4 percent) were approved for payment based on an enforcement screening initiative implemented beginning with TY 2011, reflecting a significantly decreased participation rate over the prior year.

In arriving at its \$54.72 million estimate, the OLS relied on IRS EITC program statistics which indicate New Jersey families claimed approximately \$1.2 billion under the federal program in TY 2012. Using these data, the OLS projected the total amount of federal EITC claims for subsequent tax years by assuming a growth rate of 2.5 percent based on IRS "preview" data of the maximum federal credit amounts anticipated for TY 2013. Applying the proposed increase in the State benefit amount (from 20 percent to 25 percent of the federal credit amount) to the adjusted data yielded an estimate of total State EITC program costs which was then discounted to reflect the most recent participation rate data for NJ taxpayers participating in both the State and federal programs.

Under the EITC, the State benefit amount is increased annually reflecting annual adjustments in the federal income eligibility limits and benefit amounts. Should the participation rate in the State

program increase or decrease, the OLS estimate would need to be adjusted accordingly.